

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 EPG-02 AID-05 SS-15
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R 041738Z MAY 77
FM USMISSION GENEVA
TO SECSTATE WASHDC 7053
INFO AMEMBASSY LONDON
USMISSION EC BRUSSELS

LIMITED OFFICIAL USE GENEVA 3374

E.O. 11652: N/A
TAGS: GATT, ETRD
SUBJ: GATT WP ON EXPORT INFLATION INSURANCE

REF: A. GENEVA 3027 B. STATE 52741 C. GENEVA 3223

1. AS NOTED IN REF A, WE SUPPLIED TO UK MISSION GENEVA THE HYPOTHETICAL STATISTICAL EXAMPLE GIVING OUR UNDERSTANDING OF HOW UK EXPORT INFLATION INSURANCE SCHEME WOULD WORK, AS CONTAINED IN REFTEL B.

2. UK HAS RESPONDED BY SUPPLYING A STATISTICAL EXAMPLE WORKING FROM A DIFFERENT APPROACH, AS FOLLOWS: QUOTE

UNITED KINGDOM COST ESCALATION INSURANCE SCHEME
ILLUSTRATIVE NUMERICAL EXAMPLE

1. CONTRACT VALUE - 20 MILLION POUNDS (ON CREDIT TERMS)
2. PERIOD OF COVER - 3 YEARS
3. ELIGIBLE VALUE - 9.8 MILLION POUNDS

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ARRIVED AT AS FOLLOWS:
CONTRACT VALUE -20 MILLION POUNDS LESS
FIXED PRICE SUBCONTRACTS
AND OTHER ITEMS NOT SUB-
JECT TO UK INFLATION-6 MILLION POUNDS

14 MILLION POUNDS LESS

30 PERCENT STANDARD
DEDUCTION -4.2 MILLION POUNDS

ELIGIBLE VALUE -9.8 MILLION POUNDS

4. THRESHOLD -7 PERCENT

SUBSEQUENT COST

INCREASE BAND

COVERED -10 PERCENT

5. OVER THE THREE YEAR PERIOD THE EXPORTER'S COST INCREASES ON THE ELIGIBLE VALUE (9.8 MILLION POUNDS) WOULD NEED TO EXCEED 2.058 MILLION POUNDS (3(YEARS) X 7 PERCENT (THRESHOLD) X 9.8 MILLION (ELIGIBLE VALUE)) BEFORE ANY LIABILITY AROSE UNDER ECGD'S INSURANCE OCOVER. THAT LIABILITY WOULD BE LIMITED TO FURTHER COSTS TOTALLING 2.94 MILLION POUNDS. TAKING INTO ACCOUNT THE 294,000 POUNDS PAYABLE FOR THE COVER (1 POUND PER 100 POUNDS PER ANNUM ON THE ELIGIBLE VALUE) THE EXPORTER'S MAXIMUM NET BENEFIT WOULD BE 2.646 MILLION POUNDS.

6. THE UK COST ESCALATION INSURANCE SCHEME APPLIES STRICTLY TO COST INCREASES AND NOT TO INFLATION INDICES. AS COSTS ARE INCURRED OVER THE PERIOD OF COVER RATHER THAN WHOLLY AT THE END OF THAT PERIOD COST INCREASES WILL BE LOWER THAN INFLATION RATES OVER THE PERIOD. UNQUOTE

2. COMMENT: MUCH OF THE EXAMPLE SEEMS STRAIGHTFORWARD TO US, ALTHOUGH WE SEEKING CLARIFICATION ABOUT THE 2.94 MILLION POUNDS
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CITED IN THE QUOTED PARA 5. IT SEEMS CLEAR FROM THIS EXAMPLE THAT THE PROGRAM OPERATES AS A SUBSIDY.SORENSEN

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Message Attributes

Automatic Decaptoning: X
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Control Number: n/a
Copy: SINGLE
Sent Date: 04-May-1977 12:00:00 am
Decapton Date: 01-Jan-1960 12:00:00 am
Decapton Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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Drafter: n/a
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